

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03 H-02 PA-01

PRS-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 USIA-06

XMB-02 OPIC-03 LAB-04 SIL-01 INT-05 /090 W

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R 241830Z DEC 75

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 1364

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E.O. 11652: N/A

TAGS: EMIN, EINV, VE

SUBJECT: FERROMINERA ORINOCO ORGANIZED TO OPERATE IRON MINING  
INDUSTRY

SUMMARY: THE GOV HAS ESTABLISHED FERROMINERA ORINOCO TO CONTROL  
AND OPERATE IRON MINING PROPERTIES FORMERLY OWNED BY U.S.  
STEEL AND BETHLEHEM. ACCORDING TO ESTABLISHED ARRANGEMENTS,  
THE COMPANIES WILL PROVIDE TECHNICAL ASSISTANCE TO FERROMINERA  
ORINOCO DURING THE NEXT TWO YEARS. END SUMMARY.

1. ON DECEMBER 12, THE GOV ANNOUNCED THE ESTABLISHMENT OF A NEW  
STATE ENTERPRISE, FERROMINERA ORINOCO, TO OWN AND OPERATE ALL  
IRON MINING PROPERTIES FORMERLY BELONGING TO ORINOCO MINING  
(U.S. STEEL) AND IRON MINES DE VENEZUELA (BETHLEHEM STEEL.) THE  
NEW COMPANY WILL ALSO TAKE OVER SMALL MINES PREVIOUSLY EXPLOITED  
BY THE GOV. FERROMINERA ORINOCO WILL OPERATE AS A SUBSIDIARY  
OF THE CORPORACION VENEZOLANA DE GUAYANA (CVG) WHICH CONTROLS  
VIRTUALLY ALL STATE-OWNED INDUSTRIES IN THE GUAYANA REGION,  
SOUTH OF THE ORINOCO RIVER. THE COMPANY WILL HAVE A CAPITAL OF  
700 MILLION BOLIVARS. THE PRESIDENT WILL BE DR. ARGENIS GAMBOA,  
WHO IS ALSO PRESIDENT OF THE CVG.

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2. MR. GORDON STEINER, PRESIDENT OF THE ORINOCOMINING CO.,

INFORMED AN EMBASSY OFFICER THAT THE ORGANIZATION AND OPERATION OF FERROMINERA ORINOCO IS IN COMPLETE ACCORDANCE WITH AGREEMENTS BETWEEN THE GOV AND U.S. STEEL AND BETHLEHEM FOR THE TRANSFER OF THE FORMER U.S.- OWNED MINING PROPERTIES TO GOV CONTROL. FOR THE PAST YEAR, ORINOCO MINING CO. AND IRON MINES DE VENEZUELA, ALTHOUGH NOT OWNING THE PROPERTIES, HAVE HAD EFFECTIVE CONTROL OF IRON MINING OPERATIONS AND SALES. IN ACCORDANCE WITH THE AGREEMENTS, HOWEVER, THE GOV WILL NOW ASSUME RESPONSIBILITY FOR OPERATION OF THE MINES. UNDER THE TERMS OF THE TECHNICAL ASSISTANCE AGREEMENTS WITH U.S. STEEL AND BETHLEHEM, FOR THE NEXT TWO YEARS THE U.S. COMPANIES WILL CONTINUE TO PROVIDE SUBSTANTIAL ASSISTANCE AND ADVICE IN OPERATING THE MINES AND MARKETING ORE.

3. AT CVG'S REQUEST, U.S. STEEL HAS AGREED TO KEEP ALL OF THE APPROXIMATELY 30 U.S. CITIZEN EMPLOYEES OF U.S. STEEL TO SERVE IN LINE POSITIONS OR IN ADVISORY CAPACITIES AT LEAST UNTIL FURTHER NOTICE. STEINER SAID THAT HE WILL BE SERVING AS VICE PRESIDENT FOR OPERATIONS OF FERROMINERA ORINOCO. STEINER ANTICIPATES, HOWEVER, THAT U.S. CITIZEN EMPLOYEES WILL BE PHASED OUT OF OPERATIONAL RESPONSIBILITIES AS VENEZUELAN EMPLOYEES QUALIFY TO TAKE OVER. THE MOST SERIOUS PROBLEM ENCOUNTERED BY CVG IN ORGANIZING THE NEW COMPANY, ACCORDING TO STEINER, WAS IN OBTAINING QUALIFIED VENEZUELAN CITIZEN PERSONNEL TO FILL TOP POSITIONS IN THE NEW COMPANY. ALTHOUGH NOT YET ANNOUNCED, STEINER SAID THAT MR. SAMUEL LUCHSINGER, FORMER CHIEF ENGINEER OF ORINOCO MINING CO., WILL BE GENERAL MANAGER OF FERROMINERA ORINOCO.

4. STEINER DISCOUNTED PUBLIC REPORTS THAT IRON MINING OPERATIONS HAD BEEN MORE PRODUCTIVE DURING THE PAST YEAR THAN WHEN OWNED BY FOREIGN INTERESTS. NEVERTHELESS, STEINER SAID THAT THE IRON MINING OPERATIONS ARE VERY EFFICIENT AND SHOULD CONTINUE TO RETURN A SUBSTANTIAL PROFIT.

THE GOV MAY BE OVER-OPTIMISTIC, HE SAID, IN ANTICIPATING EXPORTS OF ABOUT 19. MILLION TONS IN 1976, BUT THE OPERATIONS WOULD PROBABLY STILL BE PROFITABLE WITH EXPORTS OF ONLY HALF THAT AMOUNT. FURTHERMORE, THE GOV IS GUARANTEED A MARKET FOR SOME 8 MILLION TONS OF IRON ORE UNDER ITS CONTRACT WITH U.S. STEEL.

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5. STEINER SAID THAT THE IRON BRIQUETTE PLANT AT CIUDAD GUAYANA, FORMERLY OPERATED BY U.S. STEEL ALONE, HAS NOW BECOME A MIXED ENTERPRISE, 49 PERCENT OWNED BY U.S. STEEL AND WITH THE REMAINING SHARES BELONGING TO THE CVG. U.S. STEEL WOULD BE DELIGHTED TO DISPOSE OF ITS SHARE IN THE PLANT IMMEDIATELY, BUT THE CVG IS IN NO HURRY TO TAKE FULL OWNERSHIP AND CONTROL OF THE EXPERIMENTAL PLANT. STEINER SAID THAT THE DEFECTS IN THE PLANT ARE NOW WELL KNOWN AND COULD BE CORRECTED WITH AN INVESTMENT OF APPROXIMATELY

\$13 MILLION. SUCH A PROGRAM WOULD INCREASE THE ANNUAL CAPACITY OF THE PLANT FROM 300 MILLION TONS AT PRESENT, TO ABOUT 700 MILLION. STEINER SAID THAT THE MARKET FOR THE PRODUCT IS EXCELLENT.

SIDOR (CVG'S) STEEL MILL SUBSIDIARY CURRENTLY TAKES THE ENTIRE OUTPUT OF THE PLANT AT THE SUBSIDIZED PRICE OF ABOUT \$20 PER TON VS. A WORLD MARKET PRICE OF APPROXIMATELY \$60. STEINER SAID THAT U.S. STEEL HAS FIRM ARRANGEMENTS WITH CVG FOR OFFSETTING THE LOSSES SUSTAINED THROUGH THE SUBSIDY. THE CVG APPARENTLY PREFERENCES TO SUBSIDIZE SIDOR IN THIS WAY AND ENHANCE THE STEEL COMPANY'S AT THE EXPENSE OF THE MORE PRODUCTIVE IRON MINING OPERATIONS.

5. COMMENT: STEINER CONFIRMED THE EMBASSY'S IMPRESSION THAT THE NATIONALIZATION AGREEMENTS BETWEEN THE GOV AND U.S. STEEL AND BETHLEHEM HAVE BEEN CARRIED OUT TO THE COMPLETE SATISFACTION OF BOTH PARTIES. U.S. STEEL AND BETHLEHEM APPEAR TO BE WELL COMPENSATED FOR THEIR CONTINUING ASSISTANCE TO THE STATE-OWNED IRON MINING INDUSTRY AND THE GOV APPARENTLY FULLY RECOGNIZES THE IMPORTANCE OF RETAINING THE SERVICES OF THE FOREIGN COMPANIES.

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## Message Attributes

**Automatic Decaptoning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** IRON, TECHNICAL ASSISTANCE, MINING INDUSTRY, ORGANIZATION & MANAGEMENT  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 24 DEC 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975CARACA13408  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750448-0392  
**From:** CARACAS  
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**Office:** ACTION ARA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 15 SEP 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <15 SEP 2003 by RowellEO>; APPROVED <30 OCT 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** FERROMINERA ORINOCO ORGANIZED TO OPERATE IRON MINING INDUSTRY  
**TAGS:** EMIN, EINV, VE, US, FERROMINERA ORINOCO  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006